YALEGLOBAL ONLINE

The abolition of textile quotas by the World Trade Organization (WTO) in January 2005 does not bode well for all developing countries, says Edward Gresser, Director of the PPI Project on Trade and Global Markets. Although the lifting of textile quotas will be a much-awaited victory for developing countries against rich economies like the US and Europe, its benefits will be highly uneven. Come January, the 55 countries with quota limits on the number of textile goods they can export to the US will no longer be bound by such restrictive trade policy. This means that economic giants of the developing world, China and India, will be able to manufacture and export as many textile goods as they desire. As a result, some of the world's smallest and least developed countries, like Nepal and Cambodia, will see their textile industries pushed out to the periphery. Middle-income countries like Mexico and Malaysia will also lose sales fast, while the fate of Muslim states like Bangladesh and Turkey is not yet clear. Garment factories in these countries employ millions of people, with Bangladesh's national economy relying heavily on its textile industry. Ironically, the quotas have helped sustain factories and employment in these smaller developing world economies. But with rich-country reform well under way, Cambodia and Paraguay will soon be pitted against regional giants China and Brazil. Gresser argues that simply rich-country reform will not suffice. "The big developing countries have to accept their own responsibility to help their poorer and smaller neighbors," he writes. – YaleGlobal

The End of Textile Quotas Will Redistribute Pain and Gain

Countries who so long benefited from quota system must reconfigure their economy

Edward Gresser
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WASHINGTON: The WTO's Doha Round opened almost three years ago with a vision of extending trade and growth to


Bangladeshi women in a garment factory: The textile industry employs four million people in Bangladesh and contributes heavily to export revenues.

the developing world. Since then, countries like India, Egypt, South Africa and Brazil have asked for abolition of rich-country farm subsidies, and an end to tariffs on labor-intensive goods. They are right to say the rich should do more. But one of their past successes – the abolition of textile quotas at the end of this year – shows that rich-country reform may not be enough.

The commitment to lifting textile quotas dates to 1994, with the successful close of the 'Uruguay Round' talks that created the WTO. On January 1, 2005, the United States, Europe, and other rich economies will abolish their quotas systems. The event is still awaited with enthusiasm in China and India – but in many other countries it arouses more apprehension than hope, as the livelihoods of over ten million workers across the developing world could be affected.

Unique in manufacturing trade policy, the quotas set limits on the number of clothes developing countries can send the US. Filipinos, for example, can sell Americans all the bicycles, yo-yos, and computer chips they can make. But they can sell no more than 4,198,176 cotton sweaters to the United States this year. Fifty-four other countries face similar limits.

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Economists have long derided this approach to trade, and for good reason. For Americans, the quotas are drags on the standard of living. A recent analysis by the International Trade Commission suggests the quotas may raise clothing prices by 25 percent across the board, meaning Americans pay $50 to $60 billion more for clothes than they should.

Developing-country governments, meanwhile, considered the quotas an obnoxious barrier to growth and job creation. The reasons are obvious. Every day, U.S. ports take in a million sweaters, six million pairs of socks, 1.3 million brassieres, and much more. In 1994, Asian, Latin American, African, and Middle East governments alike assumed that ending the quotas would mean more American imports, and that more American imports would mean more jobs.

In 2004 it doesn't seem that simple. The quotas have certainly limited imports. But they have done so mainly for the countries that can make the most clothes – China in particular, and to a lesser extent India and other large Asian countries. These limits seem in turn to have created a 'space' of demand which factories in Nepal or Haiti could fill. So when the quotas vanish this January, some countries fear China and India will recapture the space left to others and do it so well as to squeeze them out completely.

A second ITC report, released last January, provides evidence that their fears may have some foundation. It predicts that China will emerge as the 'supplier of choice' of clothes for the United States; India will be a primary alternative; and other big Asian countries such as Pakistan, Indonesia, and Vietnam may also succeed. Middle-income countries like Mexico, the Philippines and Malaysia, by contrast, will lose sales fast. Their costs are higher, and their infrastructure is not strong enough to compensate. Large Muslim states like Bangladesh (which relies heavily on textile exports to earn foreign exchange) and Turkey have unclear prospects. The Caribbean, Latin America, and Africa need special help through free trade agreements or extended tariff benefits to keep pace.

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Practical evidence is equivocal, but seems to bear out the ITC's forecasts. Baby clothes, where quotas came off in 2001, are the largest single example. As Chart 1 shows, Chinese firms used the end of the quotas to triple their sales of baby clothes, while exporters in other regions struggled to keep up.

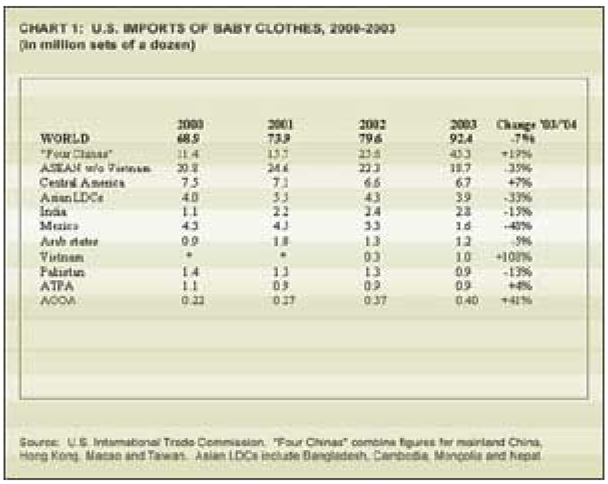

CHART 1: U.S. IMPORTS OF BABY CLOTHES, 2000-2003
(in million sets of a dozen)

	2000	2001	2002	2003	Change '03/'04
WORLD	68.5	73.9	79.6	92.4	-7%
"Four Chinas"	11.4	13.7	23.6	43.3	+19%
ASEAN w/o Vietnam	30.8	24.6	22.3	18.7	-35%
Central America	7.5	7.1	6.6	6.7	+7%
Asian LDCs	4.0	5.3	4.3	3.9	-33%
India	1.1	2.2	2.4	2.8	-13%
Mexico	4.3	4.3	3.3	1.6	-40%
Arab states	0.9	1.8	1.3	1.2	-5%
Vietnam	*	*	0.3	1.0	+108%
Pakistan	1.4	1.3	1.3	0.9	-13%
ATPA	1.1	0.9	0.9	0.9	+4%
AGOA	0.22	0.27	0.37	0.40	+41%

Source: U.S. International Trade Commission. "Four Chinas" combine figures for mainland China, Hong Kong, Macao and Taiwan. Asian LDCs include Bangladesh, Cambodia, Mongolia and Nepal.

Chart 1. US Imports of Baby Clothes Enlarged image

If the same trends emerge when quotas vanish for sweaters, blue jeans, and other heavily traded goods, the consequences may be considerable. Garment factories employ more than three million people in Southeast Asia, four million in Bangladesh and Pakistan, half a million in Egypt, and well over a million in Turkey. Smaller countries often rely even more heavily on the garment industry, with clothes making up about 98% of Lesotho's exports and 80% of Cambodia's.

Some middle-income countries are less vulnerable than they may think, though. As Chart 2 shows, China's opening up through WTO membership is helping them make up their potential losses. Turkey's exports to China, for example, have grown from $40 to $400 million since 1999, in areas like steel, fabrics and auto parts. The Philippines, Thailand, South Africa and Indonesia have done nearly as well.

CHART 2: EXPORTING TO CHINA, 1999-2003

SIX MIDDLE-INCOME COUNTRIES	1999	2002	2003
Turkey	$40 million	$239 million	$400 million
Philippines	$0.6 billion	$1.4 billion	$2.1 billion
Indonesia	$2.0 billion	$2.9 billion	$3.8 billion
Egypt	$15 million	$84 million	*66% growth*
South Africa	$0.24 billion	$1.15 billion	$1.6 billion
Thailand	$1.8 billion	$3.5 billion	*58% growth*

FOUR LOW-INCOME COUNTRIES	1999	2002	2003
Bangladesh	$1 million	$12 million	*7% growth*
Cambodia	$9 million	$22 million	*6% growth*
Mongolia	$204 million	$217 million	*27% growth*
Nepal	$8 million	$5 million	*1% growth*

Source: IMF and national statistical agencies. 2003 data are unavailable for several countries; in these cases the table reports import growth rates reported in Chinese statistics in italics.

Chart 2. Exporting to China Enlarged image

The chart also shows, though, that the poorest countries may have fewer options. Least-developed Asian states such as Bangladesh, Cambodia, Nepal and Mongolia are examples; so are poorer African nations. Both seem less able to benefit from Chinese growth, and some large Muslim countries may find themselves in similar straits.

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